multiple of RBC, it is considered at-risk by BCBSA and is subject to additional restrictions and interventions. BCBSA looks at CareFirst's RBC overall, not by jurisdiction. As the combined CareFirst entity is currently at 622% of RBC, and above the monitoring or at-risk levels, it is not subject to BCBSA monitoring.

The Proposed Merger Could Help CareFirst Manage Capital More Efficiently

Affordability of health care could be enhanced to the degree CareFirst, post transaction, could more efficiently manage the capital required for reserves, and reflect the efficiencies gained in its product pricing. Currently, CareFirst is restricted in its ability to move reserves between jurisdictions. The proposed transaction may provide an opportunity for CareFirst and regulators to structure reserve policies that might provide CareFirst additional flexibility to economically manage its capital. More efficient management of capital can favorably impact affordability by reducing CareFirst's costs.

Should the merger with WellPoint be approved, CareFirst would have access to the public equity markets as a source of capital. As a result, CareFirst would not have to rely solely on its earnings to generate capital for reserves. CareFirst would also be part of a much larger entity. The earnings, assets, and investments of the broader WellPoint entity could be used to improve availability, accessibility, and affordability to customers in Maryland, Delaware, and Washington, D.C. Large multi-region health plans such as WellPoint, by virtue of their size and geographic diversification, are also better able to withstand regional market downturns. CareFirst's choice of WellPoint as a merger partner brings it the benefit of becoming part of the one of the largest health plans in the United States.

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Conclusions

In any transaction like CareFirst's proposed for-profit conversion and merger with WellPoint, there are risks to health care availability, accessibility, and affordability. These include the risk that premiums increase beyond medical inflation, care becomes more difficult to access, management decisions are not as responsive to local community needs, market segment focus narrows, service gets temporarily disrupted, or other scenarios occur. However, transactions like these also hold significant potential to improve health care availability, accessibility, and affordability. We conclude from our analysis that the proposed transaction has a stronger potential to positively impact the availability, accessibility, and affordability of health care in Maryland, Delaware and Washington, D.C. We conclude this for the following reasons:

1. The New Foundations Could Have a Significant Positive Impact on All Citizens in the Region. The foundations to be created could assume some or all of the non-profit purposes historically associated with Blue Cross Blue Shield Plans, and would likely possess the economic ability to make a significant positive impact in that role serving all Maryland, Delaware and Washington, D.C. citizens, including those citizens perceived to be underserved today. The $1.3 billion proceeds would provide the largest per capita proceeds of any Blue Cross Blue Shield conversion. We presume the incentives for the foundation(s) would be consistent with improving the availability, accessibility, and affordability of care for all Maryland, Delaware, and Washington, D.C. citizens.

2. CareFirst's Ability and Motivation to Serve its Members Could Well be Enhanced. The transaction may well enhance CareFirst's ability to improve availability, accessibility, and affordability of health care to the members it serves. By virtue of the transaction, CareFirst could: gain access to new systems and technologies, achieve scale economies, benefit from the management expertise and best practices of WellPoint, expand its product portfolio using WellPoint-developed products, strengthen its financial position by association with a larger, more geographically diverse entity (WellPoint), and gain better access to capital. Furthermore, the merged CareFirst-WellPoint health plan appears as if it would have the business incentive to favorably impact availability, accessibility, and affordability of care for the members it serves, in order to attract and retain customers. Its incentive would be to protect and grow its current membership base.

3. The Timing Appears Opportune to Benefit Both CareFirst and the Prospective Foundations. Given national and local trends regarding increased costs, required investments and competitive pressures, now appears to be a good time for CareFirst to continue to pursue increased scale through merging with another plan and accessing public equity markets. This approach could enhance CareFirst's ability to thrive so it can continue to serve and satisfy its constituents' needs over the longer term. By pursuing the transaction while it is strong, CareFirst can command an attractive price, thereby providing attractive value for the foundations that could serve the health care needs of all citizens in the region.

4. WellPoint's Track Record and Intent Appear Aligned With Improving Health Care Availability, Accessibility and Affordability. WellPoint appears to have the intention, as evidenced by proposed terms of the transaction, query responses from WellPoint management, and actions in Georgia and California, to positively impact the availability, accessibility, and affordability of health care for its members.

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5. Market Discipline Will Encourage Ongoing Service to the Market. Competitive market forces will continue to encourage CareFirst to enhance the availability, accessibility, and affordability of health care for its members. Should CareFirst allow its products to become less competitive on any of the three factors, it would be punished through the loss of customers.

We believe that we have taken a prudent approach in examining the question of impact on the availability, accessibility, and affordability of health care in Maryland, Delaware, and Washington, D.C. Our Report is based on our identification and analysis of potential issues, analysis of the terms of the merger agreement, evaluation of historical precedence involving WellPoint in previous transactions of a similar nature, and queries of WellPoint. Based on our approach, and the information available to us, we believe our conclusions are reasonable and supportable with the facts available to us. It is impossible, however, to predict with complete accuracy the future result of any transaction such as the one proposed. The actual result may differ from our conclusions, depending upon unforeseen factors. However, based on our analysis, we believe it is reasonable to conclude that the availability, accessibility, and affordability of health care in Maryland, Delaware, and Washington, D.C. has a strong potential to be positively impacted by the proposed transaction.

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Appendix

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Impact Statement
Appendix

January 10, 2002